



INSIGHTSIAS

SIMPLIFYING
IAS EXAM PREPARATION

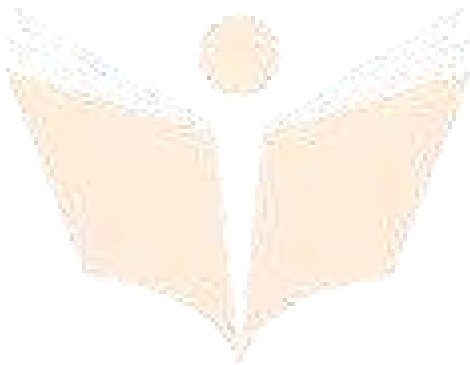
Insights into Yojana: August 2017

Goods and Services Tax (GST)

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Note: August 2017 Yojana contained more of data and facts. Refer to “Insights into Yojana November 2016” for more analysis on GST and related issues.



GST Regime – A Fillip to Make in India

Introduction

- GST was launched on July 1, 2017 where India moved towards ‘**One Nation, One Tax, One Market**’.
- The consumers will benefit from lower prices due to **removal of cascading in taxes** and efficiency gains.
- **The trade and industry will benefit because of**
 - Uniform single indirect tax throughout the country.
 - Seamless flow of input tax credit.
 - Removal of tax related barriers at inter-state borders.
 - Reduce logistic cost.
 - End-to-end IT enabled system.
 - Minimal interference with tax authorities.
- The central and state governments will witness **tax buoyancy** and the tax collection costs will reduce significantly.
- **Exports will become competitive.** Make in India programme will get a major fillip due to increased **ease of doing business** and protection from cheap imports.
- All these benefits will add to the **GDP growth of India** in the medium and long run.
- The GST has already been introduced in nearly 160 countries and **France was the first to introduce GST in 1954.**

Need for the Constitutional Amendment

- The introduction of GST required **amendment in the Constitution** so as to concurrently empower the centre and the states to levy and collect GST.
- The **dual GST** introduced in India is in keeping with the constitutional requirements of **fiscal federalism.**

The GST Council

- The guiding principle of GST council is to ensure **harmonisation of different aspects of GST between centre and the states** as well as among states.
- GST council has emerged as a new model of cooperative federalism.
- Till now all the decisions in the council are taken by consensus without any occasion for voting. This is seen as an example to be followed in other spheres of cooperation between the centre and the states.

GST Council - Constitution

- Chairperson – Union FM
- Vice Chairperson - to be chosen amongst the Ministers of State Government
- Members - MOS (Finance) and all Ministers of Finance / Taxation of each State
- Quorum is 50% of total members
- States - 2/3 weightage and Centre - 1/3 weightage
- Decision by 75% majority
- Council to make recommendations on everything related to GST including laws, rules and rates etc.

Provisions in the GST

- The constitution (one hundred and first amendment) Act, 2016 provides for **compensation to the states for loss of revenue** arising on account of implementation of the GST for a period of 5 years.
- The GST regime has provisions to address the concerns of the medium and small enterprises.
- **Corruption will be checked**, as it will become increasingly difficult to evade taxes. The GST regime will bring in more and **more businesses into the formal economy.**

Questions

1. Discuss the key features and significance of GST law.
2. Which of the following is/are salient features of the Goods and Services Tax (GST) regime?
 1. It will be levied on production rather than consumption.
 2. It eliminates multiple taxes on firms.

Which of the above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) None

Solution (b)

3. Who among the following constitute the GST council?

1. Prime Minister
 2. Union Finance Minister
 3. Finance Secretary
 4. Minister of State for commerce and industry
 5. Vice Chairman of NITI Aayog
 6. Minister of State for Revenue
 7. State Chief Ministers
 8. State Finance Ministers
- a. 1,5,8
 - b. 2,6,8
 - c. 3,8
 - d. 4,8

Solution (b)



Creating a United Taxation Regime

- The GST with “One Nation and One Tax”, and a unified market could make the **movement of goods freer across the country**.
- GST seeks to **align the Indian taxation system with the global standards** and norms particularly with USA and Europe.
- Items of mass consumption have become cheaper. Items of luxurious nature have become costlier.
- GST seeks to replace taxes levied by the central and state governments.
- GST was implemented through **Constitution (One Hundred and First Amendment) Act, 2016**, following the passage of **Constitution 122nd Amendment Bill**.
- GST will be taxed at 0.25%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.
- GST will be levied on all transactions such as sale, purchase, barter, lease, or import of goods and services.
- Transactions made within a single state will be levied with **central GST (CGST)** by the central government and **State GST (SGST)** by the state government.
- For interstate transactions imported goods or services, an **integrated GST (IGST)** is levied by the central government.
- GST is a **consumption based tax**, so taxes are paid to the state where the goods or services are consumed and not in the state in which they are produced.
- As a parallel development, a **Goods and Services Tax Network (GSTN)**, a non profit organisation has been formed to create a platform for all the stakeholders, government, tax payers to collaborate on a single portal.
- In GSTN the central government holds 24.5% of shares while the state government holds 24.5% and rest are with private banking firms.
- The implementation has been complex, as it has a five layered taxation slab for various commodities.
- **GST tax of 28% on luxury goods is the highest in the world**. Even UK and USA don't have GST higher than 17%.
- Most economists forecast inflation to come down as GST rates for most goods have been fixed at a lower rate.
- GST laws focus on **anti-profiteering measures**-the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices.
- GST is essentially the 2nd surgical strike on tax evaders, brings most traders into the tax net, makes movement of commodities freer in the country and attracts foreign investors.

One Tax – Multiple Benefits

- Creating new economy for new India.
- Free flow of goods and services.
- Consumers to benefit from increased competition.
- Nation-wide level playing field for suppliers of goods or services.
- Strengthening the sense of Nationhood and unity.

Questions

1. It is argued that the impact of GST will be inflationary. Critically examine whether GST's impact will be inflationary or deflationary.

2. What is GST Bill officially called?

- The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014
- The Constitution (One Hundred and Thirty-Second Amendment) Bill, 2014
- The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2016
- The Constitution (One Hundred and Thirty -Second Amendment) Bill, 2016

Solution (a)

3. Project SAKSHAM is associated with

- Bolstering the information technology network for the new Goods and Services Tax (GST) regime
- Empowering the mentally and physically differently abled citizens to attain gainful employment
- Incentivizing SHGs to undertake asset-value creation and enterprising projects in rural areas
- None of the above

Solution (a)

4. With reference to provisions of the Constitution (122nd Amendment) (GST) Bill, 2014, which of the following statements is/are correct?

- Parliament and state legislatures will have concurrent powers to make laws on GST.
- The Bill empowers the centre to impose an additional tax of up to 1%, on the inter-state supply of goods for two years or more.
- Parliament may, by law, provide compensation to states for any loss of revenue from the introduction of GST, up to a five year period

Select the correct answer using codes below:

- 2 Only
- 1 and 2 only
- 1 and 3 only
- 1, 2 and 3

Solution (d)

5. Consider the following pairs related to Goods and Services Tax (GST) legislations and the provisions they contain:

- The Central GST Bill 2017 – tax on inter-state supply of goods or services or both by the Central Government
- The Integrated GST Bill 2017 – compensation to the states for loss of revenue arising on account of implementation of the GST Tax for a period of five years

Which of the pairs given above is/are correctly matched?

- 1 Only
- 2 Only
- Both 1 and 2
- Neither 1 nor 2

Solution (d)

6. The Goods and Services Tax will be levied at multiple rates ranging from

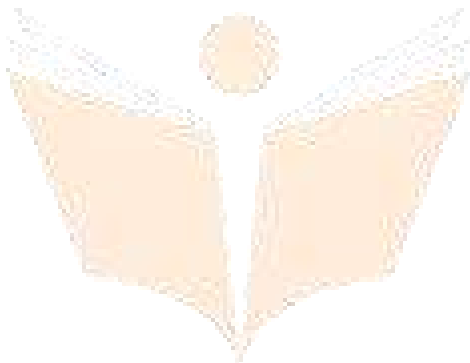
- (a) 0 per cent to 28 per cent
- (b) 5 per cent to 28 per cent
- (c) 0 per cent to 40 per cent
- (d) 5 per cent to 40 per cent

Solution (a)

7. GST will be levied on.....

- (a) Manufacturers
- (b) Retailers
- (c) Consumers
- (d) All of the above

Solution (d)



GST – Dawn of a New Era

Benefits of GST

1. Make in India

- Will help to create a **unified common national market** for India, giving a boost to foreign investment and “Make in India” campaign.
- Will **mitigate cascading of taxes** as input tax credit will be available across goods and services at every stage of supply.
- Harmonisation of laws, procedures and rates of tax.
- More efficient neutralisation of taxes for exports thereby making our **products more competitive in the international market** and give boost to Indian exports.
- Average tax burden on companies is likely to come down which is expected to reduce prices and **lower prices mean more consumption**, which means **more production** thereby helping in the **growth of the industries**. This will create India as a **Manufacturing Hub**.

2. Ease of Doing Business

- Simpler tax regime with fewer exemptions.
- Reduction in the multiplicity of taxes leading to simplification and uniformity.
- Reduction in compliance costs – No multiple record keeping for a variety of taxes- so lesser investment of resources and manpower in maintaining records.
- Simplified and automated procedures for registration, returns, refunds, tax payments, etc.
- All interaction to be through the common GSTN portal- **minimal public interface between the tax payer and the tax administration**.

3. Benefits to Consumers

- Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer, and supplier of services.
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

Conclusion

- GST is a **transformational reform** which can be seen as a business change, a **social regeneration**, a revolution that will reenergise the sagging wheels of our economic growth, and a booster dose for the immunity of our economy from the vagaries of world developments.



Creating a Strong IT Backbone

- The objective of GSTN is not just to simplify the compliance work but also make the process of paying taxes simple and convenient.
- By reforming this indicator alone, we can significantly improve upon India's rankings on the global scale on the **Ease of Doing Business** criteria.
- Designed as a self-service mode, which is simple and adaptable for mobile systems as well, the interface will play a major role in **empowering business and entrepreneurs** and easing their tax paying procedures.



Removing Cascading Effect of Taxes

Benefits / Side-effects for the Consumer

- The direct and immediate impact of GST will be a new effective tax rate on each of the goods and services.
- An indirect impact of GST, which is to be visible only in the medium to long term can come through changes in production and supply chain processes.
- Under GST, food grains, pulses, fruits, vegetables and milk have been exempted along with education and health care.
- Currently a disproportionately large number of business entities in India operate under the informal economy, which means they escape regulatory and taxation obligations.
- Under the **input tax credit system**, an entity can avail its benefit only if it buys from an entity that is registered with the GST network and also has paid taxes accordingly.
- This can lead to a large part of business entities previously operating outside regulations to register and pay appropriate taxes. This has a significant potential to **enhance the tax base and overall tax revenue** for the government.
- Another major impact of GST is on the transportation of goods, especially **inter-state transportation**. With GST making the tax rates uniform across the states, the queues at the state border check post waiting for clearance is expected to disappear.
- This uninterrupted movement of goods across the country is likely to have a reduction in terms of transportation costs and in terms of time requirement thereby bringing the overall cost down.

Conclusion

- GST is being touted as **one of the biggest tax reforms** in independent India, and there are good reasons to expect that it will have far reaching consequences.

Balancing Federal Fiscal Relations

- By giving away their constitutional ability to tax, states have bet big time on the success of the new all-India tax GST.
- The RBI in a report on state finances has warned that “Due to prevailing uncertainty about the revenue outcome from the GST implementation, the outlook for revenue receipts of states could turn uncertain”.
- **45% of the indirect taxes are not covered by GST** such as real estate, petroleum products, alcoholic beverages etc. and the state will have ultimate right to tax them and even increase taxes on them.
- Observers point out that if states were to give away their freedom to increase taxes, their **ability to raise resources to address problems unique to them would be compromised**.
- Tamil Nadu which opposed many clauses in the GST said that it had implemented wide ranging social sector reforms by the cash generated from its taxation programme.
- **GST effectively transfers the power of taxation to an unelected body**. GST Council takes on the power of deciding tax rates from both the parliament and state legislatures and these have to be implemented across the country.
- Entry taxes by municipal bodies, entertainment tax levied by local bodies, stamp duties, products such as alcohol and fuels, and electricity cesses are still not covered by GST.
- This gives them the right to increase or decrease these taxes and thus build greater financial independence from state governments.
- In **Canada** where the GST was introduced in the last century, the **provinces have the power over direct taxes**, while the **federal government has the power to tax indirect taxes**, which is why the changeover to GST did not entail any impact on state powers.
- In India however, the Centre not only enjoys sole rights over direct taxes, a portion of which it gives to states, but it now also enjoys the exclusive right to nearly half of the GST proceeds.
- What the future holds for India’s tax structure and balance of powers between the Union and States is something which the Indian polity shall decide over time.

GST signifies the dawn of cooperative federalism

Fundamental reordering of federal fiscal relations

Convergence for the cause of larger public good has been made possible with GST Council

GST shows the strength and resolve of federal structure

Two third voting power for states and one third for centre reflects the accommodative spirit of federalism

Consensus reflects the spirit of “One Nation, One Aspiration, One Determination”

Questions

1. “The GST, far from being a case of “cooperative federalism”, is really an incursion into the authority that India’s States have been permitted under the Constitution.” Critically comment
2. How will GST impact local self governing bodies? Critically examine.
3. How will GST impact state revenues? Examine.
4. Consider the following statements:
 1. Seen from the perspective of possessing exclusive powers to levy certain taxes, the introduction of the GST regime weakens states’ fiscal independence

2. While the Centre's nod is necessary for a decision to be arrived at by the GST council, a single State's refusal to vote in favour of a proposal does not imply that the GST council has failed to arrive at a decision

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Solution (c)

5. The concept of Goods and Services Tax (GST) originated in

- (a) Canada
- (b) USA
- (c) Britain
- (d) Germany

Solution (a)

6. Which of the below statements about GST is/are correct?

- 1. The CGST Bill makes provisions for levy and collection of tax on intra-state supply of goods or services or both by the Central Government.
- 2. IGST Bill makes provisions for levy and collection of tax on inter-state supply of goods or services or both by the Central Government.
- 3. The UTGST Bill makes provisions for levy on collection of tax on intra-UT supply of goods and services in the Union Territories without legislature.

Choose the correct option.

- a. 1 only
- b. 2 only
- c. 2 and 3
- d. 1, 2 and 3

Solution (d)

GST means Ease of Doing Business

- GST promises to improve the ease of doing business, reduce the tax burden for both producers and consumers, and increase the governmental tax collection.
- Creating a platform and mechanisms for **regular feedback from industry and other stakeholders will be helpful.**
- State governments and local bodies should be convinced to resist from levy of additional duties in the form of various indirect taxation in the interest of realising greater benefits out of GST.
- **Broadening the GST net** and encouraging the **unorganised sector to join the platform** should continue to be another important goal.
- Like **Singapore and Malaysia, which have a single rate of GST** at 7% and 6% respectively, India should move towards a single rate, which is also low with minimum exemptions possible.
- Measures such as these will be vital for improvement in **ease of doing business** in India and enhancing the overall competitiveness in the global arena, which is crucial for the success of **'Make in India' Programme** of the government.
- We now need to start a quick journey to ensure its most effective implementation at par with the best in the world.

Profiteering, a GST Implementation Challenge

- The idea of rolling out GST along with an anti-profiteering clause is to prevent the possibility of businesses and traders retaining the benefits of tax reduction to themselves rather than passing them on to the consumers.
- Policy makers' biggest concern is to make sure that consumers get the benefit of reduced tax burden on goods and services that the new indirect tax code offers.
- The steps are being taken to make sure that businesses and traders pass on the benefits to the consumer-such as setting up an anti-profiteering authority and creating awareness among traders and consumers.
- A **National Anti-profiteering Authority (NAA)** is to be set up to ensure that the benefits due to reduction in costs are passed on to the consumers.

Questions

1. In the light of nationwide rollout of GST, critically examine various concerns expressed by various stakeholders regarding its structure and features.
2. What is the objective of GST's 'anti-profiteering' clause? Does it make economic sense? Critically comment.
3. How does effective implementation of GST improve India's Ease of doing business? Discuss

Transitional Challenges Ahead

Benefits of GST

- **Abolition of Multiple layer of taxes**
 - GST will integrate Central Excise, Services Tax, Sales Tax, Value Added Tax etc into one tax.
- **Mitigation of Cascading Taxation**
 - There would be an input tax credit system to ensure that there is no cascading of taxes.
- **Development of Common National Market**
 - GST would introduce a uniform taxation across states which would make it easier to supply goods and services hassle free across the country.
 - This will help in removing economic distortions, promote exports and bring about development of a common national market.
- **Increase in voluntary compliance**
 - As all the information will flow through the common GST network it would make tax payment and compliances a regular norm with lesser scope for mistakes.
- **Efficient administration by Government**
 - Under GST, with unified tax rate, simple input tax credit mechanism and integrated GST network, information would be readily available and administration of resources would be easy and efficient for the government.
- GST is expected to add to India's GDP by 1 to 1.8%.

Challenges under GST

- **IT Preparedness and Infrastructure**
 - It cannot be assured whether all the States and Union Territories in India are currently equipped with infrastructure and requisite manpower.
 - Except few states like Karnataka, Maharashtra and Gujarat, who have pioneered the **E-Governance model**, we have not heard about this trend in other States and Union Territories.
- **Officers Training**
 - The unlearning of the old law and learning GST provisions is imperative. GST law heavily banks on Information Technology and hence proper training has to be given to the departmental officers for effective usage and implementation.
- **New Registrants**
 - Transition of existing registered assesseees and registration of new assesseees and resolving of migration issues is a big challenge.
- **Pending Cases/ Past Disputes**
 - There are many disputes pending in the context of present indirect tax laws (both Centre and State), which are at various stages, viz, adjudication or appellate level. Government should find ways and means to resolve these disputes.
 - A possibility of introducing a **dispute settlement scheme** on the lines of **Kar Vivad Samadhan** Scheme needs to be explored which would enable the litigants to resolve pending matters.
- **Tax Administration**
 - With GST, both the centre and state level officers are expected to work under one roof and in tandem by giving up their differences.

- Cadre differences may arise, as presently in Central Excise and Service Tax, the departments are headed by officers of IRS, whereas in the state commercial departments, the commissioner is from IAS and his subordinates would be from State Administration Service.

Questions

- 1. What uncertainties still remain in the implementation of GST? Discuss.**
- 2. What are the present challenges in implementation of GST? Examine**
- 3. What is/are the most likely advantages of implementing 'Goods and Services Tax (GST)'?**
 - 1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.**
 - 2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.**
 - 3. It will enormously increase the growth and size of economy of India and will enable it to overtake China in the near future.**

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Solution (a)

- 4. Which among the following is/are subsumed under GST at the central level?**
 - 1. Central Excise Duty (including Additional Duties of Excise)**
 - 2. Service Tax**
 - 3. CVD (levied on imports in lieu of Excise duty)**
 - 4. Central Sales Tax**
 - 5. Excise Duty levied on Medicinal and Toiletries preparations,**
 - 6. Value Added Tax**
 - a. 1,2,3,4
 - b. 5,6,
 - c. 3,5,6,
 - d. ALL THE ABOVE

Solution (d)